COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, February 24, 2003

APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY

and

DOMINION RESOURCES, INC.

CASE NO. PUE-2003-00005

For an exemption from the filing and prior approval requirements of Chapter 4 of Title 56 of the Code of Virginia or, in the alternative, approval of a parent company guaranty, and for expedited consideration

ORDER GRANTING APPROVAL

On January 22, 2003, Virginia Electric and Power Company ("Dominion Virginia Power" or "Company") and Dominion Resources, Inc. ("DRI") (collectively, the "Applicants") filed an application with the State Corporation Commission ("Commission") requesting an exemption from the filing and prior approval requirements of Chapter 4 of Title 56 of the Code of Virginia ("Code") or, in the alternative, approval of a parent company guaranty for the purpose of meeting a portion of Dominion Virginia Power's nuclear decommissioning financial assurance obligations.

Dominion Virginia Power is a Virginia public service corporation providing electric service to customers in its service territory in Virginia and North Carolina. It is a wholly owned subsidiary of DRI. DRI is a holding company as defined in the Public Utility Holding Company Act of 1935 ("1935 Act"), subject to regulation as such under the 1935 Act by the Securities and

Exchange Commission. DRI is the corporate parent of Dominion Virginia Power. DRI is, therefore, an affiliated interest of Dominion Virginia Power within the meaning of Chapter 4 of Title 56 of the Code.

Dominion Virginia Power is the licensee of four nuclear power plants and subject to the rules, regulations, and guidelines promulgated by the Nuclear Regulatory Commission ("NRC") with regard to the operation, maintenance, and ultimate decommissioning of nuclear power reactors. For its obligation to decommission each nuclear reactor at the end of its useful life, Dominion Virginia Power established external trusts to which it funded all amounts included in customers' rates for electric service designated as nuclear decommissioning collections as approved by the various regulatory commissions.

Dominion Virginia Power expects to collect and earn over the respective operating lives of its nuclear power plants sufficient funds to meet its ultimate decommissioning obligation. As of December 31, 2001, the balance of the trusts amounted to $858 million. The current level of collections is approximately $36 million per year. The total estimated cost to decommission the plants is $1.6 billion, stated in 1998 dollars.

NRC regulations specify a minimum level of financial assurance and certain methods that a licensee, if it meets certain criteria, may use in satisfying its nuclear decommissioning financial assurance obligations. The 2002 minimum financial assurance level for Dominion Virginia Power's nuclear plants totaled $1.1 billion.

In 1998, the NRC changed its regulations regarding nuclear decommissioning financial assurance requirements via its Final Rule on Financial Assurance Requirements for Decommissioning Nuclear Power Reactors ("Final Rule"). The Final Rule modified the criteria that a licensee must meet to use certain of the prescribed methods for meeting the minimum financial assurance requirements. The NRC also modified the prescribed methods, which include external sinking funds (wherein funds are deposited over the operating life of the nuclear unit), surety mechanisms (including insurance and parent company guarantees), prepayment in an amount that with investment earnings will meet the future decommissioning obligation, and certain contractual arrangements.

Prior to the effective date of the Final Rule, Dominion Virginia Power, through its external trusts established for nuclear decommissioning, had been able to rely solely on the sinking fund method to meet its nuclear decommissioning financial assurance obligation. The sinking fund method required the establishment of funds in an account, such as a trust, "segregated from licensee assets and outside the licensee's administrative control in which the total amount of funds would be sufficient to pay decommissioning costs at the time termination of operation is expected." The Final Rule placed restrictions on a licensee's use of the sinking fund method as its sole method for meeting the NRC's financial assurance requirement.

Under the NRC's new regulations, Dominion Virginia Power was no longer able to rely solely on the sinking fund method for meeting its decommissioning financial assurance amount. The Company has relied on the purchase of surety bonds since 1999 to supplement the sinking fund method. Dominion Virginia Power pays an annual premium for the surety bonds and annually adjusts the amount being bonded.

For 2002 the amount being bonded was set at an aggregate total for the four nuclear units of $56.9 million at a premium of approximately $114,000. Dominion Virginia Power was notified that such premium would increase effective October 2002 to approximately $565,000, without the posting of collateral. Additionally, the premium of $565,000 would double to $1,130,000 annually effective April 1, 2003. Through its insurance broker, the Company determined that such increases were market-wide and not isolated to the Company's current surety provider. The posting of collateral would be a mandatory requirement from any other surety provider. Under the current indemnity structure, Dominion Virginia Power's current surety provider may not request collateral unless the Company's credit rating falls below investment grade.

Due to these significant cost increases, Dominion Virginia Power proposes to use a parent company guaranty as a replacement for the surety bonds, at no cost to Dominion Virginia Power. The amount of the parent company guaranty allowed by the NRC is defined by certain financial tests as applied to DRI's financial statements. Based on December 31, 2001 values, the parent guaranty available for Dominion Virginia Power is $142 million.

Dominion Virginia Power states that the issuance of a parent company guaranty by DRI to Dominion Virginia Power is in the public interest because it allows the Company to reduce its costs significantly by avoiding the significant rise in costs of the surety bond method for meeting a portion of its NRC decommissioning financial assurance requirement.

NOW THE COMMISSION, upon consideration of the application and representations of the Applicants and having been advised by its Staff, is of the opinion and finds that the requested exemption is not in the public interest and should be denied. We believe, however, that the above described parent guaranty by DRI to replace the surety bonds is in the public interest and should, therefore, be approved.

Accordingly, IT IS ORDERED THAT:

(1) Pursuant to § 56-77 of the Code, the requested exemption is hereby denied.

(2) Pursuant to § 56-77 of the Code, Dominion Virginia Power is hereby granted approval for the issuance of a parent company guaranty by DRI for the purposes as described herein.

(3) The approval granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code hereafter.

(4)) The Commission reserves the authority to examine the books and records of any affiliate in connection with the approval granted herein whether or not the Commission regulates such affiliate.

(5) The approval granted herein shall have no ratemaking implications.

(6) Company shall include the parent company guaranty approved herein in its Annual Report of Affiliate Transactions to be submitted to the Director of Public Utility Accounting of the Commission by no later than May 1 of each year for the preceding calendar year, subject to extension by the Director of Public Utility Accounting of the Commission.

(7) If Annual Informational and/or General Rate Case Filings are not based on a calendar year, then Dominion Virginia Power shall include the affiliate information contained in the Annual Report of Affiliate Transactions in such filings.

(8) There appearing nothing further to be done in this matter, it hereby is dismissed.